

**HUNTON &
WILLIAMS**



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HUNTON & WILLIAMS

USAID ROMANIA

**PROPOSED PRIVATIZATION STRATEGY
POLICY FRAMEWORK FOR THE ROMANIAN
POWER GENERATION SECTOR**

**PRESENTATION AT THE WORLD BANK
TO THE WORLD BANK, EUROPEAN
INVESTMENT BANK AND EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**



HUNTON & WILLIAMS ROMANIA – ELECTRIC SECTOR

INTRODUCTION

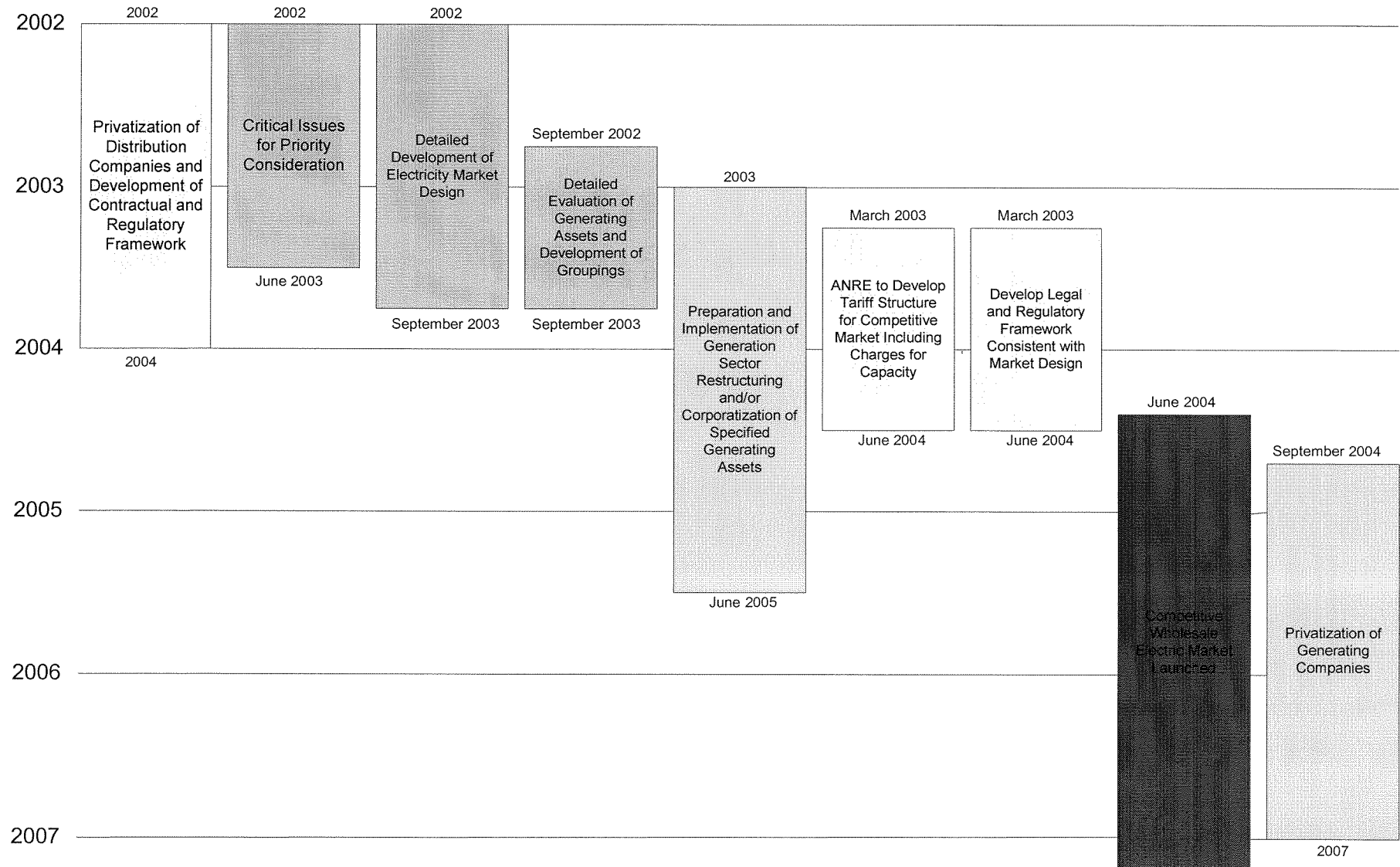
- Overview of Major Building Blocks for Sector Reform
- Focus on Selected Critical Issues
- Highlights of Major Next Steps and Actions

ROMANIA

ELECTRIC SECTOR RESTRUCTURING

INDICATIVE TIMEFRAME FOR KEY ACTION ITEMS

YEAR





CRITICAL ISSUES – DISTRIBUTION COMPANIES PRIVATIZATION

- Successful privatization of the DISCO's is a first and critical link to overall electric sector restructuring
- The contractual and regulatory framework must provide for the DISCO's constructive participation in the emerging wholesale electricity market
 - ◆ Large amounts of captive generation should be discouraged
 - ◆ Rules relating to the ability of each DISCO to contract for power should encourage the development of competition
 - ◆ Contractual arrangements should be flexible enough to accommodate the evolution of the competitive wholesale market



CRITICAL ISSUES – REVENUE STABILITY IN EMERGING COMPETITIVE MARKET

- PWC and H&W each offer potential solutions
- Hunton & Williams framework envisions 5-7 year PPA's with decreasing volumes
- PWC proposes initial contracts between generators and suppliers that would last for 5 years
- In order to implement the PWC and H&W proposals, need to integrate with distribution company privatizations and address:
 - ◆ Identification of counterparties with flexibility to accommodate changing ownership of DISCOs
 - ◆ Credit quality of offtakers
 - ◆ Payment mechanics and payment risk



CRITICAL ISSUES – REVENUE STABILITY – DEVELOPMENT OF A CAPACITY CHARGE

- As the wholesale electricity market is launched and becomes an increasingly important forum for sale of electricity, it will still be necessary to consider issue of revenue stability and market signals for investment in capacity
- PWC is analyzing alternative options for the introduction of a capacity charge mechanism to be incorporated with the wholesale electricity market design



DEVELOPMENT OF ELECTRICITY MARKET DESIGN

- PWC's work in this area needs to be coordinated with the overall electric sector restructuring
- Markets can be only as robust as the market participants
 - ◆ GOR's decisions on groupings of generating assets, types of generation and number of generating companies may influence market design
 - ◆ GOR policy determinations are needed with respect to hydro facilities
 - ◆ Develop detailed parameters for initial contracts
- Legal and regulatory framework and the regulator must be up to the task



EVALUATION OF GENERATING ASSETS AND ALTERNATIVE GROUPS

- Hunton & Williams has proposed 4 generating bundles reflecting key characteristics guided by principles developed with the input of potential strategic investors and with a view to creating robust market competitors
 - ◆ 2,200-2,300 MW of Available Capacity
 - ◆ 5,000-6,000 GWh Annual Production
 - ◆ Mixture of Thermo and Hydro
 - ◆ Relatively Debt Free
 - ◆ Geographically Diverse to avoid regional monopolies
 - ◆ Not older than 30 years
 - ◆ Orderly closure of inefficient plants with a view to meeting the EU environmental requirements
 - ◆ Selected strategic assets to stay with the Government

EVALUATION OF GENERATING ASSETS AND ALTERNATIVE GROUPS

- The Government of Romania has proposed Alternative Groupings
 - ◆ Two coal-based power generation companies each to be integrated as a "Power Complex" with associated coal mines (Termo Rovinari and Termo Turceni)
 - ◆ Efficient thermal plants (Deva and SE Paroseni) to be grouped
 - ◆ Less efficient thermal plants to be grouped with low cost hydro
 - ◆ One major hydro company that can dominate the market
- Termoelectrica and Hidroelectrica to retain ownership in all new entities



EVALUATION OF GENERATING ASSETS AND ALTERNATIVE GROUPS

- A number of elements of the GOR's strategy merit careful review and may need to be reconsidered or refined
 - ◆ Integration of coal mines and power plants into "complexes"
 - ◆ Are each of the bundles economically viable and will they be robust competitors
 - ◆ Potential non-competitive impact of concentration of hydro generating assets
 - ◆ Holding company structure
 - ◆ Creation of multiple services companies



EVALUATION OF GENERATING ASSETS AND ALTERNATIVE GROUPS

- H&W team's role going forward can include:
 - ◆ Assist GOR to develop a sound policy framework, including legal, regulatory and contractual, for guiding the reorganizing/restructuring of the generation sector
 - ◆ Evaluate the credibility of a commercialization phase and recommend strategies so that privatization is not indefinitely postponed
 - ◆ Develop a sound projection of baseline demand for electricity
 - ◆ Finalize projections that can aid GOR in developing a plan for closures and projected additions of new generating capacity



EVALUATION OF GENERATING ASSETS AND ALTERNATIVE GROUPS

- H&W team's role going forward can include:
 - ◆ Conduct detailed review of financial results on a plant-by-plant basis to develop approximate valuations and investment commitments that can be expected from investors
 - ◆ Advise on final bundle decisions in order to minimize risks created by the GOR's plan
 - ◆ Carefully consider the GOR's policy objective regarding the use of indigenous fuel
 - ◆ Consider social impact of privatization
 - ◆ Consider the feasibility of demonstration projects that can be implemented in a manner consistent with a future competitive market and to give future investors confidence in the direction of the sector